DOW THEORY LETTERS INC.

RICHARD RUSSELL
P.O. Box 1759
La Jolla, Calif. 92037

36 Letters per Year — $95 Annually

Registered with the Securities Exchange Commission

September 18, 1974 Letter 609

Sept. 6, DJIA 677.88; PTI 254; A-D ratio -34.46
Sept. 13, DJIA 627.19; PTI 220; A-D ratio -34.57

From the "Wall Street Leads the Way Dept." The NYSE is to extend its work-week by staying open an extra half hour each day. And if you don't think that little item is forecasting the work-trend for the rest of the nation, then you're reading the wrong investment report.

WILD DAYS, STORMY NIGHTS: Well, I've just rewritten this report for the fifth time this week. As I've so often said, "Richard Russell doesn't move markets, the market moves Richard Russell." I did not send out any "special report" last week, because (1) I did not see any fundamental change over anything I had previously written, and (2) I do not want to go off "half-cocked," and it always takes time before you can get perspective. Without perspective, you only produce alot of words which (a day later) you wish you hadn't written.

As everyone knows by now, this is not your "average, run-of-the-mill primary bear market." This primary bear market, which began on February 9, 1966, is a monster, it's a once-in-a-lifetime killer. It's out to change the face of the globe, and it is going to do it. I'm putting this headline (from the Sept. 10 London Financial Times on my first page to dramatize the current situation (C. Gordon Tether, by the way, is probably the world's most influential financial writer).

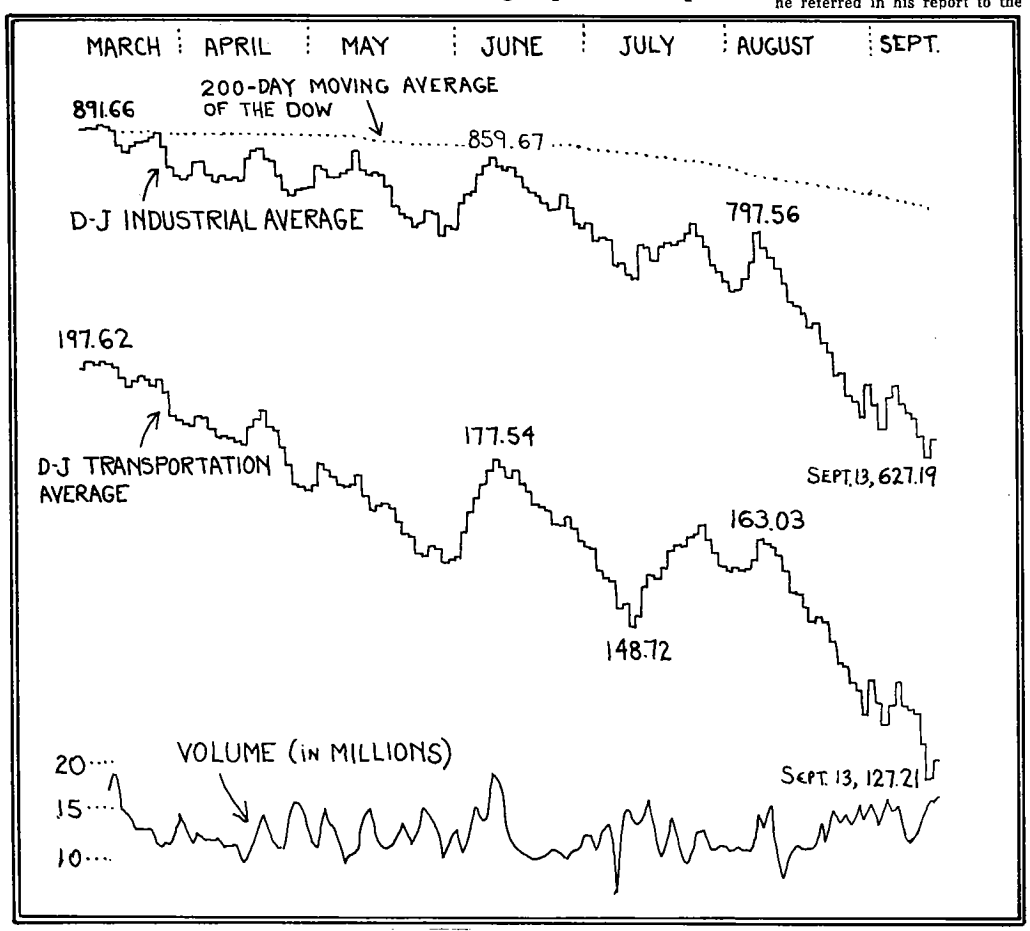
This bear market is already history's longest and one of its most vicious. It has been built on a skyscraper of debt, it has been built on an endless sea of US and international "paper promises," promises which are now illiquid and subject to increasing suspicion. To put it bluntly, the world's economic structure is in the process of unravelling.

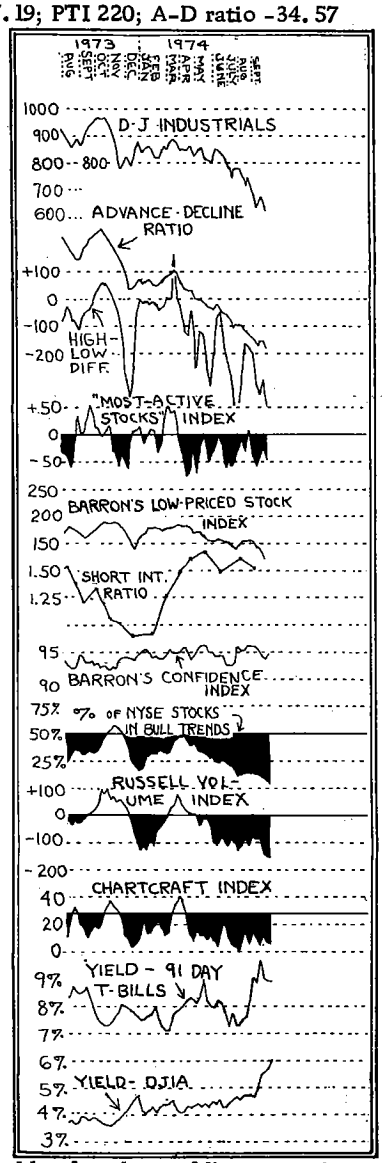
Lombard

Waiting, helplessly, for the holocaust

BY C. GORDON TETHER

DR. KURT WALDHEIM, UN's Secretary-General, ringed round the most disturbing aspect of the global economic crisis when he referred in his report to the





The great mass movement we are now witnessing represents a headlong flight out of all equities into cash (currency, Treasury bills, etc.). This is the move which is discounting a collapse in corporate earnings, wholesale dividend cuts and omissions, bankruptcies and a wide assortment of stupifying financial problems. When the markets of the US and the world go down in the ghastly fashion of the past year, it means to me that business is headed for the basement. The NYSE, since March, 1974, has

 been giving us a vivid picture of what a market crash looks like. Moreover, the dreadful "waterfall" action since August, 1974, has been saying "Urgent!" I feel that we are within days or weeks of some kind of a shocking, perhaps catastrophic event such as the collapse of a nation or the toppling of a major financial institution. And I think that by late Fall the US and the world will be in the throes of a violent business recession (I almost hesitate to use the word depression).

Just as the first (current) movement is a route out of equities into cash, I believe that there may be a second major movement in the offing. This could be a move out of cash into gold. It could be brought on by fear of a collapse of the whole world monetary system. I've said it before, but I want to say it again with as much emphasis as possible. We are in a period of survival. This bear market is out to take us all, and our job is to survive with as much of our skin (assets) intact as possible! The bear has already slaughtered all common stocks from glamors to growth to capital goods to retail shares. He's annihilated the (supposedly safe) Utility shares. He decimated the bond markets. Over the past few weeks the gold shares have been battered. What's left? Well, we have gold bullion (and coins), and we have cash or its equivalent.

I feel, as I have all along, that gold, gold shares and cash (Treasury bills) are the only survival vehicles for this bear market. Will gold bullion (and coins) be hit by the bear over the next few months? They could, and large interests (probably hoping to buy cheaper gold) are sending the rumors flying. Italy is going to sell its gold (pure bunk), the US will knock the price of gold down (more bunk), and the IMF is going to swap its gold for World Bank Bonds (only God knows what the IMF will try). But all the rumors are calculated to knock down the price of gold. Actually, I believe the Arabs would (and could) buy all the gold offered, in any quantity at any time, and I believe they are buyers now.

What about cash or Treasury bills? So far, these have been the only harbors which have not been shattered. Will they get hit next by the bear? I wonder. But a major bank collapse, a series of bank collapses, freezing of bank accounts, that might "do it." How about a world monetary collapse and a "moratorium" on debt? Treasury bills are debt. We could have the final crucifixion there.

I want to comment further about the recent slaughter of the gold stocks. I must have received five hundred phone calls last week. Calls at 3AM from Zurich, calls at 5PM from L.A., calls from all over the world. Here is what I conclude. Nothing fundamental has changed in the gold picture. On September 9, a well-known pro-gold investment service announced in a rather strange way that it was clearing out its theoretical accounts (all listed golds) and this exotic "sell order" was blamed for the avalanche of gold share sales. I feel the afore mentioned service may have "triggered" the selling, but it was not the cause.

What was the cause? Here are my observations: (1) We are seeing the total, utter collapse of speculative sentiment on the NYSE. Gold shares were the last group to rise on speculative buying. They were the last to go. (2) Margin calls and stop losses were set off wholesale in the gold group. Every margin was ripped out in the downward flight. Stocks were cut in half in a matter of days. (3) Fear of Canadian taxes hit the Canadian issues, fear of Mozambique hit the S. African issues, fear of over-speculation (plus the Abelson Barron's article) hit Homestake, the American issue.

I wish that I could have foreseen the panic selling in the gold group. I wrote repeatedly that the market was going down, and I had felt the selling would to some extent "rub off" on the golds. But I feel badly in that I was not able to predict the extent of the gold selling. I did foresee (and I warned about it in Letter after Letter) the gathering crescendo of liquidation in the general market, but the extent of sympathetic cave-in in the golds was unexpected.

What do we do? Here is my thinking again. If you have 30% to 50% of your assets in gold related items (coins, shares), as I have consistently and continuously advocated, put the rest in US Treasury bills. Put it in T-bills, not bank C/D's, not savings and loan accounts, NOWHERE but T-bills (and please, do not margin your stocks or coins). Then sit tight — that's all, just sit tight.

It might help to understand and comprehend this: No fiat (non-gold backed) currency in all history has survived. All paper currency is made to be devalued. Unless we get gold into the international monetary system, there isn't going to be a system. Time is running out. It is not waiting for Mr. Ford's September economic summit conference, it isn't waiting for the IMF late-September meeting, it isn't waiting for Europe to "get together" and come up with the gold-backed currency which is so badly needed.

In the face of all this, we have the Arabs who must be somewhat flabbergasted by the spectacle of the German gold-backed loan to Italy. "What," you can almost hear the Sheiks saying, "Germany receiving gold collateral for her loans, and they give us paper for our oil, our only asset?" And so I ask myself, how long can the Arab situation last? Now much longer, and already we hear talk of a 14% price boost which may be in the offing for oil, or perhaps another cut-back or even an embargo. All of which puts pressure on the world to come up with real money for the Arabs, and real money means gold-backed money. Here again, time is running out.

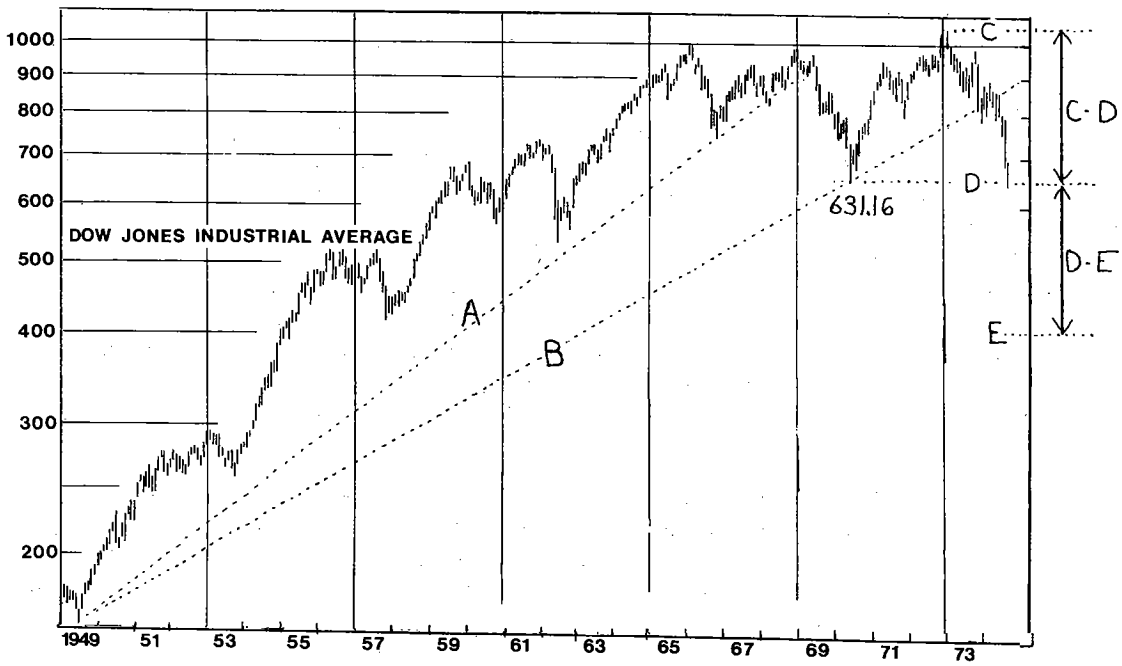
THE MARKET: It's anything but a pleasure writing about the market today. I guess I've stood almost alone over the last year in trying to indicate how serious, how massive, how relentless this great bear market decline was fated to be. Again and again the various experts and advisories promised "a rally," "a bull market bottom," "a major upward correction." The corrections have not come. They just don't appear.

On Friday, September 13, the bear smashed the Dow through the 1970 critical low point of 631.16. The Dow has not been lower since 1962. The Transport 1970 low of 116.69 has not yet been broken. It will probably go next, and in short order. The Utility Average (incredibly) broke the 60 level last week, and it has not been there since 1954. It's as though we were watching the financial version of a Greek tragedy. In the end the king dies. And the Dow has been the king.

I must admit to feeling emotional as I write this. If I have spared any of my fine subscribers the agony of being wiped out in this terrible debacle, then it was worth the hours and days of lonely work. I know what it is to watch each day as your securities and your life savings go down the drain. If my readers have escaped that, then I feel I have done my part as well as I could.

What about the period ahead? We're nearing the end of the second phase of the primary bear market. Somewhere below lies a second phase bottom, then a respite and a rally. I don't know where the bottom is, and I don't know whether this market is going to crash first. My friend Tom Holt thinks we'll see 30 to 50 Dow point declines and 30 million share days before this downleg is over. Tom Holt is a very smart guy, and I won't argue with him. I'll just say that I never would have believed we could have come down this far without a high-volume crash. Maybe the crash will come from below 600, maybe we will get by without one.

The fact is that it doesn't matter any more. The damage is being done. I keep thinking of the still-over $4 billion in margins on the NYSE. What happens to them in the weeks ahead? Time will tell. But my guts tell me that they're going to take out that margin as the rampaging bear has his way, day after day, week after week on the downside.



THE RECTANGLE: All readers of these reports have had their eye fixed on the 631.16 level of the Dow. That level represents the primary low point for the bear market, as does the 116.69 level for Transports (see long-term chart, Letter 608, page 3). I have stated repeatedly that this bear market is fated to take the Dow Averages below their preceding bear market lows (a prediction which has generally been greeted with ridicule), and that we would examine the situation from there.

I am publishing the chart above which is a revised edition of the Bank Credit Analyst chart. What we see here is a ratio-scale portrait of the Dow (monthly) from 1949 to the present. Note that the upside momentum of the move from 1949 petered out in 1966. In 1968 major trendline A was violated. Following the crash into 1970 and the deceptive rise into 1971, second major trendline B was ruptured during 1973.

What can the chart tell us about the situation now? The horizontal dotted line labeled C extends through the tops of 1966, 1968 and 1973. The horizontal dotted line D extends across from the 1970 bottom of 631.16. The horizontal lines C-D form what is known technically as a "rectangle." It is not unusual for a bearish movement to continue below a rectangle to a distance equal to the height of the rectangle. On the right side of the chart I have drawn vertical line D-E which is equal to C-D. E is a point at around 400 in the Dow. That's the Dow "target."

Take this an as exercise in theory, in pure technical analysis, and as I have so often said, technical analysis is merely a guide in a business where there are very few reliable guideposts. Conclusion: The Dow could be headed for an ultimate low in the 400

area. This would be well below the 620 area, an area which has been a favorite target for the bearish element of the investment fraternity. In the next issue I hope to show why I believe this primary bear market may not end until 1976.

QUESTION: How bad do you think the economic situation could get? ANSWER: It could get unbelievably bad — and very fast. I thought it was most significant that President Ford's "honeymoon" with Congress and the American people ended with a bang on September 9, following the incredible "rush to pardon" of Mr. Nixon. In one fell swoop, deep suspicions were aroused and confidence was eroded (this following the absurd "Tower of Babel" nonsense represented by the meeting of 28 economists, each offering his own cure for the nation's ills).

I feel that housing and auto sales are going to fall apart in the period ahead. Ford Motor President Lee Iacocca stated last week that customers "will be shocked" when they see the 1975 auto prices. I say that Iacocca will be shocked when he sees the 1975 auto sales figures. But that's just the consumer side of the coin. It should be remembered that at no time since World War II have we seen the consumer and the capital goods sectors of the economy contract together. I feel that we are going to see just such a double-barrelled contraction during 1975, and it is going to be brutal. I expect the government to fight it (with inflationary efforts) every inch of the way.

But even more frightening than an economic slump is the spector of a breakdown in the international monetary system. I don't believe the current, house-of-paper monetary system can take anything like the economic collapse which I see coming during the year ahead. Mr. Ford is probably flabbergasted at how quickly confidence can fade and a "Mr. Clean" label can tarnish. Well, he hasn't seen anything compared to what happens when people lose confidence in their bank accounts, their security holdings, the very cash in their pockets (all of which could be brought on by a toppling over of the world's fragile and battered banking system).

QUESTION: How can all this effect gold? ANSWER: The rate of monetary inflation will be pushed to the hilt as the depression deepens. I don't pretend to know what rate of rise in the money supply the Fed will attempt. But in this atmosphere of desperation people will turn increasingly to gold. Right now the dollar is strong against other currencies, and there is a respite as far as "distrust in the dollar" is concerned. Much of the new sentiment has to do with the very high interest rates which have made the dollar attractive. But as the business slump continues, I expect the government to make every effort to bring interest rates down, way down (and a huge drop-off in business loans will help). This will take the glow off the dollar and move people toward "real money" or gold. When people see that the dollar is once again being called upon to inflate us out of an economic decline, they will grab for gold. Thus, gold will be moved into the "private money system" run by the citizens of the US. But as I have said so often, no currency has ever lasted which was built on paper (non-gold backed). Either gold is brought into the international monetary system — or there will be no system. In its place we will have rubble and bankruptcies. It's as simple and fundamental as that.

QUESTION: Do you think the US Government is actually going to allow us to own gold? If not, what could happen? Please amplify. ANSWER: This is obviously the greatest primary bear market since 1929-32. The action of stocks since 1966 makes me ponder. For instance, the Egyptian civilization lasted several thousand years. The Egyptians resisted change stubbornly, they depended on slavery, but they nevertheless endured a long time. Capitalism and the democratic system, as we know it, has lasted just a few hundred years. Already, it appears to be getting shaky. One thing that bothers me is that no nation has ever withstood the destruction of its currency. The dollar ceased to be a "store of value" money in 1934 when US citizens were forbidden by law to buy gold with their paper dollars. Now we are again to be allowed the right to purchase gold (supposedly on January 1, 1974). I hope it happens. But I wonder.

The right to own gold does not make the dollar convertible per se. But if you can buy gold coins (and perhaps gold bullion) with your dollar, that right makes the dollar convertible "by proxy." This means that the US Government has to be very careful, for if it resorts to continued inflation citizens will see that they are still being robbed (via devaluation of their currency) and they will rush to buy gold. This will send the price of gold through the roof, it will sink any remaining confidence in the dollar, it will create a world panic.

As I see it, the US Government is going to be tempted to do either of two things: (1) try to put off or cancel the right to own gold (first they'll try to get past the November elections), or (2) try to hold the gold price down. Will the US Administration, the Treasury, and the anti-gold (inflationary) forces be successful? In the long run I doubt it. In the short run, anything may be attempted and anything may happen. I'll admit that I don't like Rockefeller where he is. Rockefeller, in my opinion, is a spender, he is power hungry, he feels guilty about his own wealth, and he wants that Presidential power himself, and he wants it badly.

The other night I was talking to a friend and I said, "You know Ray, this bear market is out to get us all, and I mean get us, and I don't care what we own or where we live. I'd settle right now to have 70% of my current (today's) assets on the day this bear market ends. I'd settle for that deal right now, in a second." My friend totally agreed with me.

Every once in a while I come on a new item which hits me between the eyes. Such an item was this UPI interview with Michael Caine. I've said all along that the US follows closely behind our English speaking cousins, the British. I read this interview and I said, "I'll bet this is the way we go. I'll bet this is how it ends here. They're going to grab all the wealth and assets, and they're going to spread it all over the nation like a 1/4 inch layer of chicken feed. Maybe that's what the bear market is telling us. After all, what's left of Britain? Traditions and memories, that's all, plus those stiff upper lips (and believe me, they need 'em)."

HOLLYWOOD (UPI) — Michael Caine isn't sure "There'll always be an England" if Britishers continue to desert their island in droves to escape taxes and inflation.

"First there was the brain drain," he said while making a new movie in Hollywood. "And now there is a tremendous artistic drain.

"Movie production has almost disappeared. There was a period when British pictures were of interest in the United States. Not anymore. There is a sense of coming home in America now.

"American investments in British pictures have been withdrawn because of English taxes. American producers, directors and stars have left Britain. They prefer a maximum tax of 52 per cent at home instead of England where they can be taxed as much as 120 per cent."

Caine, who is starring with Natalie Wood in "Fat Chance," said most British stars who earn substantial salaries have bailed out of blighty.

He named Richard Burton, Richard Harris, Robert Bolt, Sarah Miles, Rex Harrison, James Mason, Dirk Bogard and Trevor Howard among many.

"If you reach a certain plateau of income, the government raises its tax to more than you earn," Caine complained. "Now they're talking about taxing the money you have in savings accounts. They want to tax all possessions in your home to 10 per cent.

"Well, if it keeps up, the government is liable to be taxing an empty country. It's not just show folk who are leaving, so are industrialists and bankers. There are no great men left to change the course.

"I've been in the United States six weeks, and in that short period of time I have been overwhelmed by the number of my friends who have given up and left the old country. Now J. Paul Getty is leaving.

"The funniest thing I read in the papers over there was that the head professor of the tax law department law department at London School of Economics studied the new tax laws and moved to a job with the University of Chicago.

"But it's a serious business. I don't see how England can recover economically. We had hopes that the North Sea oil fields would save us, but the drilling is being done by American companies and we'll lose out."

Caine, many times a millionaire, is one actor who plans to continue to live in England. His home is a mile from Windsor Castle on seven acres of manicured grounds along the Thames.

"I'm staying because I love my home," Caine explained, "But it's not easy. The socialist government is extraordinary. You have to be on the lower income scale to want to vote for the Labor Party.

"By forcing everybody into the lower income bracket they are creating new voters for themselves every day. They perpetuate themselves."

"Trouble is, the Tories aren't any better."

QUESTION: You've written so much on the coming price deflation and depression and the inflation of the currency which will accompany it. Could you go into the process further? ANSWER: I could, but I would rather comment on this via the latest issue of the authoritative Bank Credit Analyst (1245 Sherbrooke St. W., Montreal, Canada 109). Editor Boeckh presents some incisive comments on the current situation. I have listed a few of his view as follows:

(1) As rampant inflation and declining liquidity progress, the symptoms become increasingly frightening. But in terms of monetary aggregates, the impack of each squeeze by the authorities has become less visible. For instance, during the 1966 squeeze the money supply actually did contract for 8 months. During the 1969-70 squeeze money supply rose slightly throughout 8 months of restraint. "But in the current squeeze," says Boeckh, "most terrifying of all, the growth in the money supply has not visibly slowed at all!"

(2) At this critical stage, the two outstanding laggards are price inflation and unemployment. At this late stage, the squeeze on credit indicates a potential economic collapse even before a visible slowdown in inflation or a noticeable rise in unemployment. Boeckh then gives the example of Britain where, in the face of a current 18% inflation rate, the government has found it necessary to stimulate the economy again (4-week annualized rate on money growth in Britain now 37%!).

(3) Thus, the cycles are now overlapping, with governments having to resort to reflation even while price inflation is rampant (and it seems "all right" because the lagging indicators of unemployment and price inflation have not yet given new bearish indications). Actually, Britain expects to have one million unemployed by 1975.

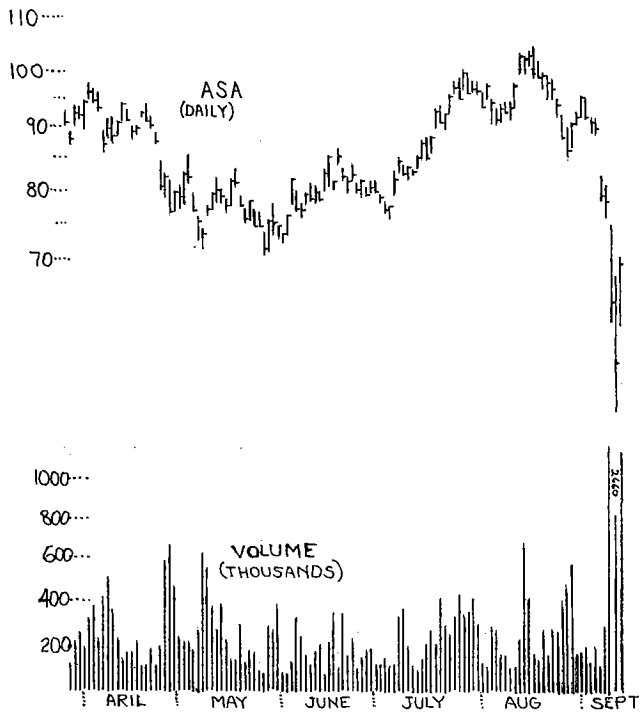
In case you doubt Boeckh's thesis, note that at the early or "warm up" summit meetings in Washington, the only consensus was that the Fed should ease up on interest rates and "get the economy going again." Thus before signs of easing in US price inflation, before any adverse unemployment statistics can really emerge, the cry is "more stimulation, easier money." This is exactly the process I was warning about in Letter 607, page 1. Reflation is to be the order of the day, and with reflation will come hyper-inflation in the monetary sector of the economy.

STOCKS: From here on in the bear market, I have a feeling the market is going to be more a laboratory for psychologists than market technicians. As the gold stocks peeled off last week and as margins were called, wide gaps opened in the prices, and I illustrate this with my own daily chart of ASA (page 6). Ordinarily, I would say that following a panic of this kind, ASA would sink back slowly and test the lows, and if the situation remained bullish, ASA would approach or even break the lows on drastically reduced volume.

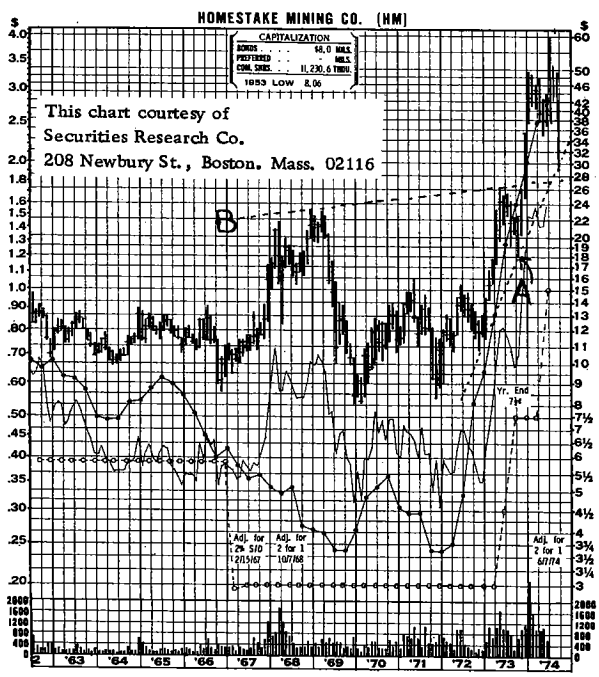
But because of the extreme emotional nature of the selling in golds and because I feel that golds went generally from weaker and margined hands to stronger hands (hands capable of buying during panic conditions), I believe that the golds are now technically in better shape than before and that the "normal" post-panic action may not occur. Nevertheless, it (again "normally") should take some time before the golds build a base and start forming bullish trends again.

What about the price gaps and do they have to be "closed"? The answer is that not all gaps are closed, and some are closed months or years later (some never). Thus, closing the gaps is, I find, one of the particularly useless adages of Wall Street, and it is a concept that is more deceptive than not. Therefore, forget the gaps.

The long-term (monthly) chart of Homestake provides a better perspective of what occurred during the panic. Here we see that at just under 30 (the panic low) HM barely penetrated its steepest rising trendline (A on chart), then bounced over 41 the next day. Interestingly, HM also drew support above major breakout line B, and this is the line which represented the breakout area of the whole 1967-73 accumulation pattern. I referred to this pattern in earlier Letters when HM first hurdled above line B.



I assume that all readers have or are holding the position I have recommended, which is roughly 50% of assets in gold shares and coins and the other 50% in Treasury bills. I would continue with this same position, abstaining from trading. From here on, there is little doubt that stocks of every kind will be buffeted by strong emotions, and it is going to be a difficult period indeed. But then, great bear markets are always frightening to live through, but we don't have any choice. The gold items represent part of our survival package, and the ultimate idea (in case you forgot) is to get through to the bottom of this bear market with our assets as intact as possible. With our ultimate "nest egg," we will invest in the next bull market and hope to ride up, in what could be one of the great bull markets of all time (more about this in later Letters).



GOLD: We are moving nearer the period when our government promises us that we can hold gold bullion legally. This should be bullish for gold. The S. African government is playing it very shrewdly. They are moving towards putting one-third of their gold output into Krugerrands, and this chart shows the boom in the demand for this one-ounce gold coin. The Krugerrand is legal tender in S. Africa, and this is an added attraction (although obviously it trades on its gold-coin value and not simply as legal tender).

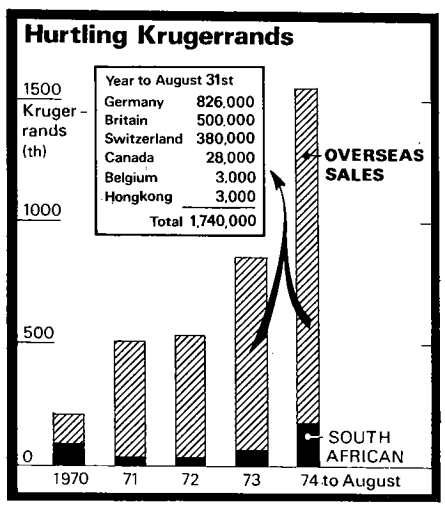
I have been asked whether the surge in gold coins will affect the gold shares. My answer is yes, in one positive way and one negative way. In a positive way, the coins will probably serve to run the gold price up, and this will be bullish for the stocks. If a worldwide panic into gold coins appears, the stocks will be helped no end (obviously). From the negative side, gold coins allow for another entry into gold without the political or economic risks to which the mines are subject (although the coins do not have leverage and do not pay dividends).

What is the answer for the investor? I would say, have some low premium gold coins as well as the stocks (you can not now own Krugerrands legally, since they were all minted after 1959 and the law states that you can not have post-1959 gold coins).

COMMENTS: I daily rack my brain to try to explain what is happening in the market and the world. A few days ago I received a letter from A. J. Frost, to my mind the foremost authority on the Elliott Wave Principle. I want to include two excerpts from Frost's latest letter to me:

"Would you agree with me that the market is probably now discounting some dramatic and overwhelming event in our history, not apparent to observers of the national scene such as the repudiation of domestic debt by a world trading nation. It is only a feeling, but my guess is that the market is trying to tell us something that is unknown. The unknown is greater than the known except to the market. One can almost hear Charles H. Dow whispering from the grave: 'something is up'."

"Hamilton Bolton was a great Elliotter who rescued the Principle from possible extinction. At times he said: 'I would like to sweep it under the rug'. Many of his friends presumed to know that the Principle had no application to stock market behaviour without having done their homework. He often became discouraged but never gave up. Shortly before he died in April, 1967, we spent a few hours together and talked a great deal about



Elliott and banking figures. He said: 'Before this is all over, we are going to see a real lulu of a bear market'. Another thing he said was: 'A cycle of loan liquidation is a MUST'. This was seven years ago!"

There is no doubt about it. We are seeing the great liquidation now. There isn't a man alive who can tell how this thing is going to go — not a soul. The swing could go first to cash (cash means liquidity, and cash at any cost means soaring interest rates). Then we could swing to gold because (1) gold is real money, and the paper monetary system itself may start tottering, (2) it will become obvious that the price of gold must be raised, because the current low price of gold will not allow for the coming massive amount of borrowing (against gold) which is needed if the system is to survive.

One way or another, however, I know that no bear market ends and no bull market begins until the cycle of liquidation is completed. That will be the painful cycle, the third phase of the bear market, the part that will call for all our skill at survival.

LETTING GO AND CHANGE: Periodically I include bits of my own philosophy or concepts that I have had to learn. All of us will have to let go of certain things before this bear market is over, and maybe that's the great lesson which the powers above are providing for us as the debacle progresses. At any rate, "man does not live by bread alone." One of the great lessons which I have had to learn is that I have been given what I need, not what I "want." For the fact is that what I need often helps others, what I want is usually selfish and doesn't (on a deep level) even help me.

I have noted that almost all of us reach one or more barriers, stopping points or impasses. The impasse, said psychiatrist, Dr. Frederick Perls, is the situation in which the person cannot (actually, will not) hold himself up, nor will the environment hold him up. In other words, at the impasse the person is stuck, totally stuck. All the old crutches which comprised his environment, his sports car, his drinking buddies, his hobbies, his freak-outs, none of them serve to hold him up any longer. Yet, neither will he (because of fear and insecurity) hold himself up. Thus, he stops growing at the impasse, he simply hangs on, he stands still.

Some people reach terrible impasses early in their life. They halt their own progress at age 10, 16, or 21. That's as far as they ever go. Others go further, perhaps to age 30 or 40 or more, but ultimately they too are likely to halt at their own impasses. A small group seems to continue, however. They see their personal impasses, study them, verbalize them, and mysteriously, their impasses fall away. The world opens up (or actually, they open up their world).

The impasse is an amazing phenomenon. You cannot will yourself through it, break through it, smash it, rip off the chains of the impasse. The harder you fight it, the stronger you are held in its grip. Then how does one get through his impasse? What you can do is experience how you are stuck. Then when you verbalize it, when you can comprehend it, you should repeat a dozen, perhaps a hundred times a day how you are stuck. "I'm stuck in my marriage, I can't decide whether to stay or take off." "I'm stuck on my job, I can't face quitting, but I hate it." "I'm stuck in my life. It bores me, but I'm in a quandry about what to do about it." Experience your impasse, learn how you bind yourself, write it down, then tell yourself (aloud and repeatedly) how you torture yourself in your impasse. When the time is right (when the powers above decide it, I don't know how it works) the chains will fall away. It's incredible but that is how it works.

Why do we stay in the impasse? The answer is fear of the "impending catastrophe." Mind you, I didn't say we stand still because of the catastrophe, I said fear of the catastrophe. The catastrophic expectation is what keeps everyone from moving forward, not the reality of actual danger. Take the man who can't stand his job but won't leave it. "If I leave," he tells himself, "it'll be a horror. I won't find another job, my wife will be hysterical, I'll be tramping the streets, the shame, it's going to be a catastrophe." So what does he do? He stays in the impasse, wringing his hands, fearing to move, hating where he is.

But he is getting something out of the impasse (everyone does). He is getting the illusion of safety. This is the pathetic illusion which keeps men from breaking their chains, it is the illusion which rots men's lives. And the extraordinary thing is that is is the impasse itself which is the catastrophe. All the while the man stays stuck (because of his fear of catastrophe), he is actually living the catastrophe. It couldn't be worse, his life couldn't be more impotent, but he stays because he tells himself it's safe! He complains, he wrings his hands, he bores you with his problems, but he stays stuck.

People do the same thing in the stock market. They hold stocks through bear markets because it seems safer to sit tight. Then when the stock go down, they wait in their impasse ("If I hold them they could go lower, but if I sell they'll probably rally"). That is the psychology which wipes out investors. Each is stuck with his catastrophic expectations (even while the catastrophe is actually wiping out his holdings). The impasse here is immobility, unwillingness to move.

LATE COMMENTS AND NOTES: The plurality of new lows over new highs weekly for the week ending Sept. 13 was minus 1051, incredibly still very low (see last Letter, page 2). Thus this diabolical bear market refuses to produce a climactic plurality of around -1200 or more new lows for the week. The market also shows an abnormally low amount of odd-lot shorts, considering the damage which has been done. The sparsity of weekly lows is not without its ominous side. The new low figures are really telling us that the selling so far has been selective. But bear markets always enter a period where the selling becomes general, it is broad. That period lies ahead, and with it we will probably see weekly new lows move over the 1400 or 1500 level.

My daily chart of 91-day Treasury bills yields is showing a breakdown in the momentum line. This could mean a decline in bill yields, but whether the bond market will follow (in other words, rally) is an entirely different question. Everyone is pouring money into T-bills now, and this is creating an extraordinary demand. But the demand is for safety, and this is not a particularly comforting thought. I continue to believe that subscribers should place their cash or equivalent in T-bills, and I don't care if you do get 2% or 3% more yield somewhere else.

I want to say something about the widely-heralded stock market rally which will come after this current downleg finally hits bottom. Everyone (except C.V. Meyers) says the rally is going to be a "beaut" on the upside. Maybe so, but I for one am less and less convinced. The public is OUT of the trading end of this market, so who's going to pour in and take the Dow up "a couple of hundred points." In 1929, the market topped in September, crashed in November (after cutting itself almost in half in only a few months), and then roared up in the deceptive 1930 rally. But any rally now would occur a long time after the top. The pros and institutions would have to be the impetus behind "the big rally." I don't think they're going to do it. I have grave doubts, in other words, as to whether we're going to see a BIG rally off whatever lows lie ahead. So let's keep our powder dry.

I want to go over this concept again. I've said repeatedly that this bear market is going to try to break every one of us. It will try over and over again. What I'm basically interested in is getting my subscribers to the final bottom of this devil with at least most of their assets intact. Nobody's going to make a fortune in this bear market. Fortunes are made in great bull markets. Bear markets are a survival game, and never forget it. THE IDEA IS TO SURVIVE. What good is all our work if we don't come out at the final bottom with a good part of our "tools" intact? Our tools, in this case, will be our purchasing power, the wherewithall to buy the bargains at the bottom. Therefore, don't be greedy, don't think in terms of a killing, keep at least half your money in T-bills, have some gold coins as well as shares. I feel we're moving into the area of "raw nerves" in this market with rumors, bunk, out-and-out lies, hopes, political pronouncements, the whole gamut, starting to emerge. When fear takes over, every rumor sounds like thunder. The rumors and bunk will also serve to separate you from your money. In a bear market, bullish rumors are for the purpose of distributing stocks (creating a market to sell into), wild bearish rumors are for the purpose of shaking stocks lose, creating fear.

Some readers may feel that I am spending too much time on market philosophy or philosophy in general (actually, I haven't had any complaints). I feel that one must be centered, one must have some guides, rules philosophy (call it what you will) to hang on to. "He who lives by the sword, dies by the sword." And "He who lives by money, dies by money." Money is just a tool. Occasionally, during a long, difficult job, a carpenter breaks a few tools. But he has his know-how and he knows there are other jobs, and he can buy other tools. It is the same thing in the market. We learn, we work, we are patient, and we try to operate intelligently. If we take a loss, so what. It's part of the game. Only the fool will lose all his tools trying to recover that one that is lost. The craftsman writes off the lost tool. We often have to do the same thing in the market.

I am including the little clip below about the couple who decided to rough it. Actually, it could easily become a rather widespread procedure. Bicycles are big now, so is walking. People change their habits as the situation demands, and that's why the econometric "models" go on the blink or often don't work at all.

Another news clip caught my eye. Now that Frelimo is about to take over in Mozambique, they are beginning to do a bit of thinking. One thing they are thinking about is that you don't stay in power unless you can run the country. Frelimo needs talent, and they are beginning to see that they don't have all the talent on their side. Thus, they are doing a switch and asking the whites to stay.

COUPLE TURNS OFF INFLATION

VIRGINIA BEACH, Va. (AP) — Kenneth W. Reitz and his wife have notified the Virginia Electric & Power Co. to cut off electricity to their apartment because of high utility rates.

"My bill was $90 and it's usually $40," said Mrs. Reitz, whose husband is an assistant produce manager at a supermarket. "We live in a one-bedroom apartment and don't have a dishwasher, don't cook with electricity and don't run the air conditioner very much."

Mrs. Reitz said they will open windows to cool off, dress and read by kerosene lamp, and cool their food with plastic bags of ice in the bottom of their refrigerator.

I have a feeling that once the blacks have taken over Mozambique, the situation will simmer down and move out of the headlines. Mozambique depends very heavily on S. Africa for jobs. So far, all the news has been about the impending "trouble" in S. Africa and on its borders. Events occur in cycles. I feel the African cycle could be heading towards the "cool it" stage, but that's only my opinion.

CLOSING NOTES: (Written a few minutes before the close, Mon. Sept. 16). The Dow is up around 11 points with Transports up just over a point. The breadth of the market is poor with a plurality of around 18 more issues up than down. The periodic rallies of this type simply keep the market from totally washing out on the downside, and they keep the new lows from building to climactic levels. Silver turned weak today ($3.87 spot), and the building materials (copper wire, plywood, lumber) are starting to slump. Hang on, my readers, night must end.

Africans Ask Whites To Remain

LOURENCO MARQUES (UPI) — The Frelimo black guerrilla movement began a campaign yesterday to persuade whites to stay in Mozambique after Frelimo takes over the government.

As hundreds of black troops poured into the capital, a local leader of Frelimo said the movement already faces dissension in its ranks.

Small groups of Frelimo sympathizers began touring the city, talking with whites and trying to persuade them to stay in Mozambique after a black government is installed here, probably within the next week.

Many of the 200,000 whites here have fled since the April coup in Lisbon which led to Portugal starting to dismantle its African empire. As a result, Mozambique's economy is close to collapse.

"We are obviously concerned about the situation," an important local Frelimo guerrilla leader told a group of reporters yesterday. "We need them. We are trying to calm their fears. We want them to stay here and help us build up the country."